Q3

Multi-Asset Outlook

June 2025

PGIM QUANTITATIVE SOLUTIONS

50 YEARS CELEBRATION

Executive Summary

Economic Outlook

- Trade worries dominated in early 2025, with President Trump's "Liberation Day" tariffs sparking volatility across financial markets. Initially proposed steep tariffs were replaced with a temporary 10% minimum tariff, but key trade partners—Mexico, Canada, and China—remain targeted.
- Rapid policy shifts defined Q2. A deal with the UK is finalized and a framework agreement with China is in place, but broader negotiations remain incomplete, setting the stage for further delays in the "Liberation Day" tariffs start date.
- Legal challenges have complicated tariff implementation. Courts struck down both February and April tariffs, though rulings are stayed pending appeal. If rulings are upheld, the administration may seek alternative statutory authority, though these tools are more limited in scope.
- Policy shifts drove a surge in uncertainty, reflected in sentiment measures. Economic sentiment indicators spiked in April but eased slightly following tariff delays. However, renewed tariffs could reignite recession fears.
- Trade data highlights distortions from policy uncertainty. Firms front-loaded Q1 imports, widening the US trade deficit and temporarily boosting GDP growth in export-heavy economies like Germany. Japan's GDP, however, was flat as trade effects weighed on growth.
- The US labor market has held up, with year-over-year real income growth at around 2.7%. However, modest increases in continuing unemployment claims suggest softening.
- Inflation remains stable for now, but early signs point to tariffs slowly pushing up prices, especially for imported goods. Business surveys indicate widespread plans to pass costs onto consumers.
- Inflation expectations are diverging: consumers expect 5% inflation, while market estimates are closer to 2.4%.
- Beyond trade, geopolitics and fiscal policy loom large. The Israel-Iran conflict has spiked oil prices, and the US deficit outlook worsened after the House passed Trump's tax bill. Moody's downgraded US credit, underscoring a tense, uncertain macro backdrop.

Market Outlook

- Market volatility surged in early April after President Trump announced broad reciprocal tariffs, triggering a sharp sell-off amid fears of global retaliation, recession, and stagflation. Treasury yields spiked, the dollar weakened, and Fed Chair Powell acknowledged that tariffs were "significantly larger than expected."
- Sentiment briefly improved as non-retaliating countries received exemptions and tariff pauses. However, chip export restrictions and renewed Fed inflation concerns kept markets on edge. A tentative easing in mid-April, as Trump signaled willingness to negotiate a deal with China, drove equities higher through mid-June.
- The S&P 500 rallied nearly 20% off April lows on improving tariff sentiment. Still, US small caps and REITs lagged, while international equities and commodities led gains. Bond yields, while volatile, remained range-bound, with the 10-year Treasury near 4.5%.
- Political headlines have driven market behavior more than economic data. The VIX surged past 50 amid peak trade uncertainty but has since moderated as sentiment stabilized.
- Additional headline risks loom, including a new fiscal reconciliation bill and debt ceiling negotiations. Hard economic data, previously resilient, is beginning to soften even as survey-based soft data improves.
- Q1 earnings held up, though forward earnings expectations were revised lower. Large-cap tech remains strong, with Mag-7 earnings expectations rising even as small- and mid-cap outlooks declined.
- Global bond markets remain under pressure as policy uncertainty and fiscal risks raise term premiums. Outside the US, JGBs and Eurozone debt face reduced demand and growing fiscal needs.
- Commodities, particularly oil and gold, have benefited from inflation concerns and geopolitical tensions. Tariffs support short-term price momentum, though demand risk persists.
- While fundamentals remain broadly supportive of risk assets, persistent uncertainty underscores the need for diversified portfolios. Stock-bond correlations have normalized, providing potential portfolio ballast if fundamentals reassert leadership.

Economic Outlook

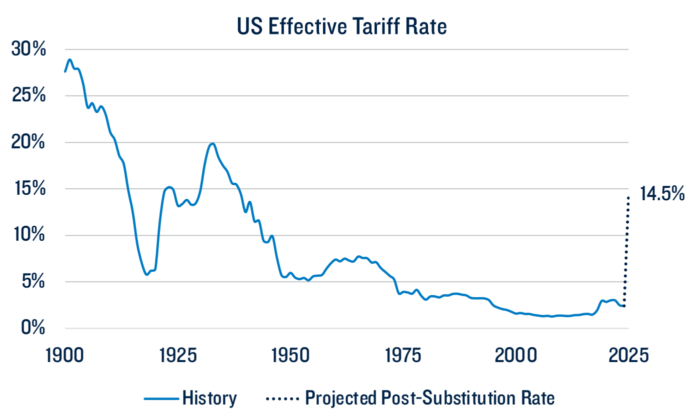
Tariffs, Trade Deals, and Global Tensions

During the 1992 US presidential election, Ross Perot famously warned of the "giant sucking sound" of jobs going south if the US agreed to a free trade agreement with Mexico. Fast forward to the first half of 2025, and anytime President Trump spoke (or posted) about trade policy a similar "giant sucking sound" could be heard as he hoovered up the market's attention[1].

President Trump's second term has been marked by a sharp focus on trade policy, with the early-April announcement of "Liberation Day" tariffs, coupled with threats of reciprocal measures, sparking widespread turmoil in stock, bond, and currency markets. Seeing the writing on the wall, the Trump administration partially walked back these measures, delaying the steepest tariffs and settling for a temporary 10% minimum tariff instead. Still, major trading partners like Mexico, Canada, and China have borne the brunt of Trump's targeted policies. Rounding out the major trade announcements was a 50% tariff on steel and aluminum imports.

The pace of policy shifts during the second quarter has made it difficult to keep track of the evolving trade landscape. The Budget Lab at Yale has compiled a bank of helpful information summarizing the current policies. Figure 1 plots historical US effective tariff rates since 1900 alongside projections for 2025 based on legislation in effect as of June 1, 2025[2]. By year-end, tariffs are expected to surge to their highest levels since 1938, echoing the era of the Smoot-Hawley tariffs.

Figure 1: Tariff Rates Projected to Reach Highest Levels Since Late 1930s



Source: The Budget Lab at Yale. Policy as of Jun 1, 2025, last updated Jun 6, 2025[3]

More recently, the Trump administration has focused on negotiating trade agreements with major trading partners. An agreement with the UK has already been finalized, and as of this writing, a framework agreement with China is in place. While progress is reportedly being made with other countries, securing comprehensive trade agreements is a complex task that cannot be rushed.

The justification for delaying the "Liberation Day" tariffs hinged on finalizing these deals. Already, the White House has signaled that the July 8 deadline is "not critical" and would be extended for countries negotiating in "good faith," potentially setting the stage for further delays in the start date.

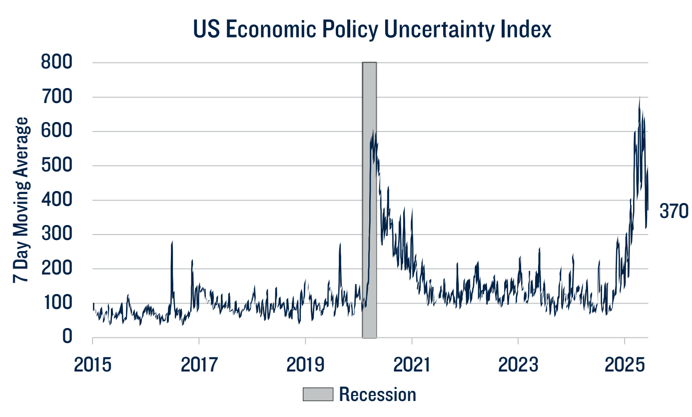
As the Trump administration pushes forward its trade agenda, the courts have thrown a wrench in their plans, invalidating both the initial February tariffs as well as the "Liberation Day" tariffs. However, these rulings have been stayed pending appeal, with an expedited hearing for one of the cases scheduled for July 31st.

The administration faces an uphill battle to keep tariffs in place, both at the Court of Appeals and potentially the Supreme Court. Even so, the process is lengthy, meaning tariffs are likely to remain in place until a final ruling is issued. Should the Supreme Court uphold the initial rulings rescinding the tariffs, the Trump administration may still have options. Other statutory authorities could enable the implementation of tariffs, although these are more limited in scope.

Amid the current (but quickly evolving) trade policy landscape, what is the impact on the global economy?

Thus far, the economic impact of the tariffs has been most evident in sentiment measures. Figure 2 shows a sharp April-May spike in the economic uncertainty index, which has since pulled back modestly, but remains historically elevated. Econometric studies suggest a link between rising economic uncertainty and weaker GDP growth. PGIM Quant's proprietary recession sentiment indicator demonstrates a similar pattern: It spiked in April following the "Liberation Day" announcements, but subsided after the tariffs were postponed. Reinstating these tariffs may lead to renewed recession fears.

Figure 2: Policy Uncertainty Spikes in April, Eases After Tariff Delay



Source: Bloomberg, PGIM Quant. Data as of Jun 11, 2025.

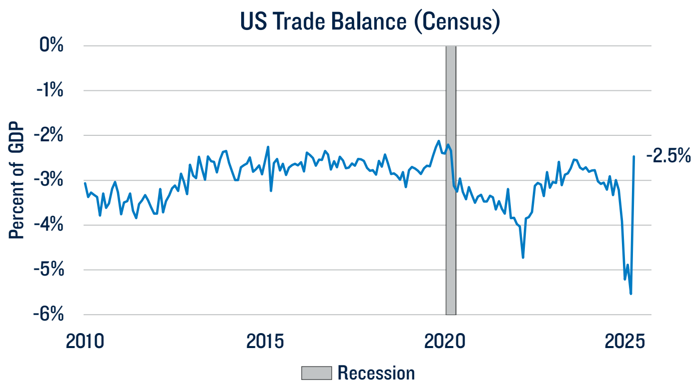
[1]Not unlike the giant vacuum cleaner in the 1987 sci-fi comedy classic Spaceballs (for those who recall the reference). A sequel is in the works.

[2]The estimate, known as "post-substitution," accounts for how consumers and firms react to the higher rates. It assumes a shift in purchases away from items with steeper tariffs.

[3]https://budgetlab.yale.edu/research/state-us-tariffs-june-1-2025

Trade data also underscores the effects of these policies, particularly on industries exposed to tariffs. The US trade deficit widened significantly in Q1 as firms accelerated imports, stockpiling ahead of potential tariff increases (Figure 3)[4]. This surge in demand temporarily boosted economic activity in trade partners like Germany, which benefited from increased exports. However, more recent data reveal a sharp reversal, with the deficit narrowing as tariffs went into effect. This suggests the boost in Q1 German GDP may be short-lived. However, this effect was not uniform across countries; Japan's Q1 GDP growth was flat as trade dynamic weighed on growth.

Figure 3: Trade Deficit Widens, Then Pulls Back

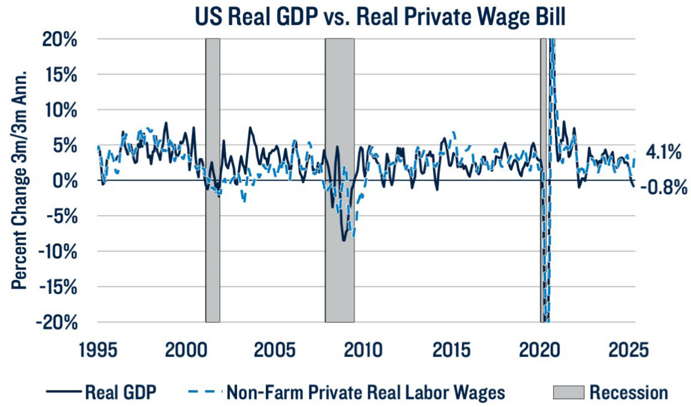


Source: Bloomberg, PGIM Quant. Data as of Apr 30, 2025.

Hard economic data, in contrast to sentiment measures, has shown limited changes so far[5]. The US labor market continues to hold up despite the turbulence surrounding trade policy. Figure 4 compares smoothed annual percent changes in real GDP[6] to an estimate in the real private wage bill[7]. This estimate is calculated by multiplying private non-farm payrolls by real average weekly earnings. Capturing a broad swath of the real income earned in the economy, it serves as a reasonable monthly proxy for broad economic performance. At an annual growth rate of 2.7%, the current real private wage bill estimate is roughly consistent with the post-Global Financial Crisis average.

There are, however, some early signs of strain. Continuing unemployment claims have experienced slight upward pressure, suggesting a slowdown in hiring. Even so, there's little evidence of widespread layoffs at this point. For 2025, the Budget Lab at Yale estimates that tariffs alone could add 0.3% to the unemployment rate and shave -0.5% from real GDP growth[8]. While these effects are undeniably negative, they fall short of signaling a catastrophe.

Figure 4: Underlying Trend in Real Income Holding Up



Source: Bloomberg, PGIM Quant. Data as of May 31, 2025.

The trade war's impact has yet to appear in US inflation data. The Consumer Price Index (CPI) rose just 0.1% month-over-month in May, following a 0.2% increase in April. While headline CPI increased marginally on an annual basis, core CPI held steady at 2.8%. Although above the Federal Reserve's (Fed) preferred level, it remains relatively stable.

While not yet evident in CPI data, tariffs may still be subtly influencing inflation. Former chief economist of the Council of Economic Advisers Ernie Tedeschi[9] has argued that tariffs are beginning to creep into the data. Tedeschi cites higher-frequency metrics that show larger retail price increases for foreign-origin goods versus domestic goods. He also notes the delayed impact of the 2018 washing machine tariffs, which took three to four months to reflect in CPI data.

Given that many tariffs were either postponed or in place only briefly, the relevant question from a forward-looking basis is how will firms pass along future tariff increases to consumers. A New York Fed survey of businesses in the New York/New Jersey area[10] estimates that over 30% of manufacturers and nearly 50% of service firms would fully pass tariffs on to consumers. Additionally, roughly 50% of these firms would pass along at least half of the tariff increases. These dynamics suggest potential upward pressure on prices if tariffs endure.

[4] There are additional complexities related to gold imports, which also spiked during this period. The BEA ignores these figures for GDP calculations.

[5] US data is typically more timely, allowing us to observe its impact earlier.

[6] Using monthly series produced by IHS.

[7] Deflated using the PCE price index.

[8] https://budgetlab.yale.edu/research/state-us-tariffs-june-1-2025

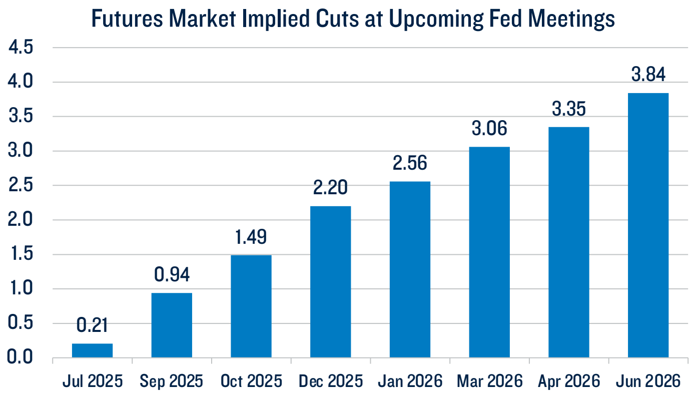
[9] https://www.bloomberg.com/opinion/articles/2025-05-28/tariffs-are-already-creeping-into-us-economic-data

[10] https://libertystreeteconomics.newyorkfed.org/2025/06/are-businesses-absorbing-the-tariffs-or-passing-them-on-to-their-customers

Consumers remain more pessimistic about the outlook for inflation than financial markets. Preliminary June data from the University of Michigan survey shows one-year inflation expectations exceeding 5% despite pulling back from May's decades-long high. By contrast, market-based estimates from the Cleveland Fed hover around 2.4%, a level only slightly above recent historical averages. The Budget Lab at Yale estimates inflation will rise roughly 1.5% above baseline[11], coming in roughly between market and consumer expectations.

Despite higher inflation projections in the near-term as tariffs ripple through the US economy, the Fed maintains its wait-and-see stance. Its Summary of Economic Projections suggest two rate cuts before the end of the year, consistent with messaging over recent quarters. Market pricing largely aligns with these projections (Figure 5).

Figure 5: Futures Market Prices Roughly Two Cuts by Year-End 2025



Source: Bloomberg. Data as of Jun 23, 2025.

Still, uncertainty lingers. While CPI remains contained for now, that the Fed's stance could be tested if inflation spikes and unemployment creeps up. Central banks often talk about looking past supply shocks, but the Fed may be challenged by balancing its inflation fighting credibility with rising unemployment concerns.

While other developed market central banks are keeping an eye on the Fed's actions, their policies are shaped by the unique conditions of their own economies. The European Central Bank (ECB) has continued cutting rates, lowering the deposit rate to 2% in early June as inflation comes under control. ECB President Lagarde indicated the bank is nearing the end of its cutting cycle, while also flagging downside risks, suggesting additional room for cuts if needed. Like the Fed, the Bank of Japan (BoJ) is in wait-and-see mode, but the relevant question for the BoJ is not when to cut…but when to hike. It must balance elevated inflation with negative trade impacts and the strengthening yen. Recent surveys of economists suggest a consensus is emerging that rate hikes will be delayed until 2026.

Tariffs undeniably shaped macroeconomic and market behavior in the first half of 2025 with meaningful implications for the future. But they weren't the only significant factors. In the US, President Trump's "One Big Beautiful Bill Act" passed the House and is now moving to the Senate. The CBO estimates the House version of this tax bill would increase the deficit by $3 trillion[12]. The tax bill, along with other factors, prompted Moody's to downgrade the US sovereign credit rating from AAA, bringing it in line with ratings from S&P and Fitch.

Internationally, geopolitics have further complicated the economic landscape. Tensions between Iran and Israel escalated into open conflict in mid-June as Israel launched strikes targeting Iranian military leaders and nuclear facilities. The US joined in, deploying 'bunker busters' on Iranian nuclear enrichment sites, but is now actively working to broker a cease-fire. Oil futures initially surged amid fears that Iran would force the Strait of Hormuz closed, but prices have since pulled back on cease-fire hopes. Meanwhile, the Russia-Ukraine conflict persists, with significant casualties from ongoing attacks on both sides.

With policy and geopolitics dominating the economic outlook, uncertainty remains high. In times like this, it can be helpful to consider the economic outlook conditional on how these external factors will play out. But when a knife is poised on its edge, only a fool will predict exactly when and in what direction it will fall. A more prudent approach is to say: "if it falls, I don't want to put my hand near!"

[11] https://budgetlab.yale.edu/research/state-us-tariffs-june-1-2025

[12] https://www.cbo.gov/publication/61459

Trade and The Global Monetary System: Two Sides of the Same Coin

It's not like President Trump is the first to call attention to trade deficits. For decades, academics have studied "global imbalances," and international organizations like the IMF have called them out. Serious multilateral efforts to address imbalances date back to the 1960s. What's different today is that surpluses are held primarily by China - the United States' primary geopolitical rival. What sets Trump apart is employing tariffs at an unprecedented scale, breadth, and unilateral focus, marking a stark departure from the past. However, as long as the US dollar remains at the center of the global monetary system, these imbalances will remain, regardless of whether tariffs stay elevated or revert to pre-Trump levels. We believe that a weaker dollar will play a key role in correcting these imbalances.

The Dollar and the Global Monetary System

The driver of these imbalances lies in the dollar's central role in the global monetary system. As the world's primary reserve currency, the US dollar effectively compels the US to run deficits in order to supply the liquidity necessary for global growth. This structural necessity strengthens the dollar beyond where it might otherwise trade, since companies have to hold dollars to facilitate trade and cross border finance, and central banks have to hold dollars as their primary official reserve asset. A "stronger-than-it-otherwise-would-be" dollar contributes to persistent trade deficits and a shift away from domestic manufacturing. This inescapable fact will extend beyond almost any trade "deal" that the US might reach with China and other major trade partners. The dollar's dominance in the global monetary system also keeps US interest rates lower than they would otherwise be, further complicating efforts to reduce trade imbalances. The US might not like a structurally strong dollar, but it does like low interest rates.

Routes to a Trade Deal

So how might the current negotiations unfold? The US and China are, in fits and starts, groping toward some sort of accommodation that would at least remove the "reciprocal tariffs" while appeasing national security hawks on both sides. Below, we sketch out several potential paths forward, from most to least likely:

- **A Trumpian "Deal"**
  This scenario involves China committing to increased purchasing of US goods; joint initiatives on fentanyl trafficking; and some US relaxation of export controls. A "baseline" tariff of perhaps 10%, with certain exceptions, could remain in place, with additional tariffs targeting specific goods such as steel.

- **A Bigger Role for the Renminbi**
  China may play a bigger role in the global monetary system, perhaps by liberalizing its capital account and promoting the (stalled) efforts to internationalize the renminbi (RMB). We struggle to think of concrete and realistic ways to achieve this, but stranger things have happened.

- **Macro Rebalancing**
  The US pushes China to raise domestic demand, and China presses the US to trim its fiscal deficits.

- **Currency Appreciation**
  Pressure on China and other key trading partners, particularly in Asia, to appreciate their currencies.

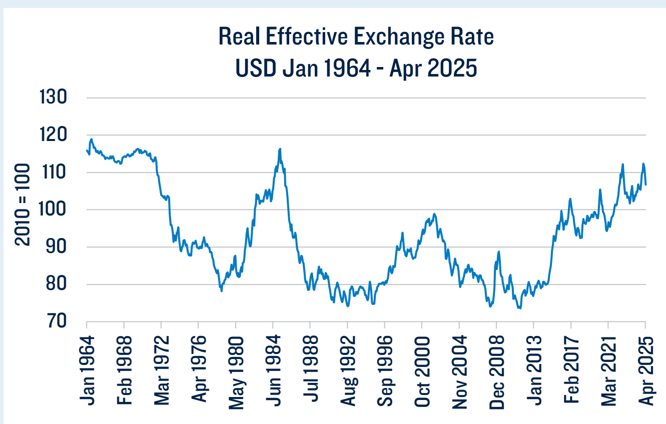
- **Currency Blocs**
  The global system divides into a dollar bloc and an RMB bloc. The euro also remains the center of its regional "bloc", and somehow the blocs continue to trade with each other.

Another Offramp: A Weaker Dollar

None of these options are magic bullets and some are either very unrealistic (the RMB as a major reserve currency) or very disruptive (regional currency blocs). As a result, we anticipate that policymakers will once again resort to incremental and compromise-driven measures at both the macro and micro level. Market forces will more than likely play a role as well. For starters, the dollar is richly valued. Figure 6 shows the real trade-weighted exchange rate for the US dollar.

Prolonged periods of high policy uncertainty can have lasting repercussions on markets, dampening economic growth and investor confidence. Investors should remain agile and explore portable alpha overlays to enhance returns without altering core allocations. Option-based strategies, such as buffered ETFs – which limit downside risk while preserving some upside potential – can also help investors manage market uncertainty. To navigate today's uncertain investment landscape, staying informed, maintaining flexibility, and preparing for heightened volatility is essential.

Figure 6: US Dollar Remains Richly Valued



Source: Bank for International Settlements Narrow Real USD Index.

Q&A: Trade, Tariffs, and Currency

Will tariffs tank the US economy?

No, consumers have largely been shielded, and any economic impact looks like it will unfold more gradually than we initially expected.

Will the US adopt similar unilateral measures on capital flows?

No, Treasury Secretary Scott Bessent prioritizes keeping long-term US Treasury yields contained.

Why can't the US and China just agree to "macro rebalancing" – China shifts to domestic demand, and the US reduces its fiscal deficit?

Because that would hurt the political economies of each. China's development strategy is built on excess savings, and it has created politically strong interest groups that live off that system. The US is built on the consumer, which benefits from a strong dollar and low rates.

Could China increase domestic demand fast enough to compensate for a large reduction of the US fiscal deficit?

Probably not. From a practical standpoint, even if China wanted to accelerate domestic demand, it's unlikely to do so quickly enough to offset the impact of a significant reduction in US fiscal deficits. Such a mismatch would risk stifling global growth.

Will major holders of reserves dump dollars?

No, there is no alternative that can absorb reserves on the same scale as that of the US Treasury market. However, surplus countries might only hold dollar reserves at higher interest rates/weaker USD exchange rates.

Will the RMB replace the dollar as a global currency?

No, in this scenario, China is the one that would have to run deficits, something it's unwilling to do. Being a global reserve currency requires relinquishing a degree of monetary control, something China would not consider. However, the RMB could see increased use as a trade settlement currency.

This sounds pessimistic. What's the upside scenario?

Trade deals that result in lower average tariff rates and higher investment in the US, as many countries and companies have already announced. Implementation of other elements of the Trump economic plan (deregulation and energy production) is another potential positive. Collectively, this scenario could be very interesting, as it could lead to shrinking US external deficits, and the eventual rebound of the US dollar.

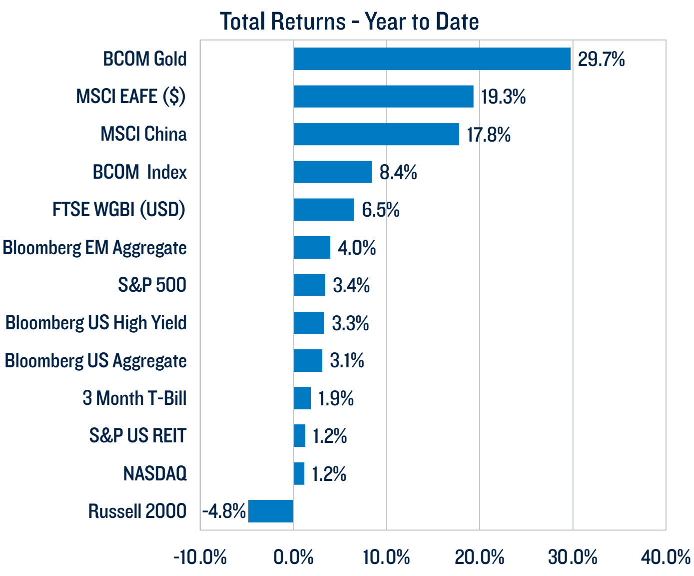
Market Outlook

Headline-Driven Markets

Market volatility surged in early April following President Trump's announcement of sweeping reciprocal tariffs targeting major trading partners. The news triggered a sharp sell-off in risk assets as fears of global retaliation and a potential recession intensified. Fed Chair Powell noted the tariffs were "significantly larger than expected," delaying expectations of rate cuts and heightening fears of stagflation. Treasury yields spiked, with the 30-year yield jumping 21bps and the dollar index falling sharply, reviving worries about fiscal discipline among the debt vigilantes. While some relief came in the form of select exemptions and a tariff pause for non-retaliating countries, sentiment quickly soured again with new chip export restrictions and additional warnings from the Fed about inflation risks.

By mid-April tensions began to ease as President Trump signaled a willingness to negotiate a potential deal with China. Hopes for tariff relief spurred the S&P 500 to rally approximately 20% by mid-June from its lows following "Liberation Day," leaving it just 3% shy of February's record high. Despite a recovery in equities, bond yields remained range-bound with the 10-year US Treasury yield hovering at around 4.5%, pushed higher by concerns about tariffs and longer-term sustainability of US debt. International equities and commodities emerged as standout performers during the first half of the year (Figure 7), while US small-cap stocks and REITs lagged, reflecting divergent market dynamics into the middle of 2025.

Figure 7: Gold, International Equities Lead the Pack

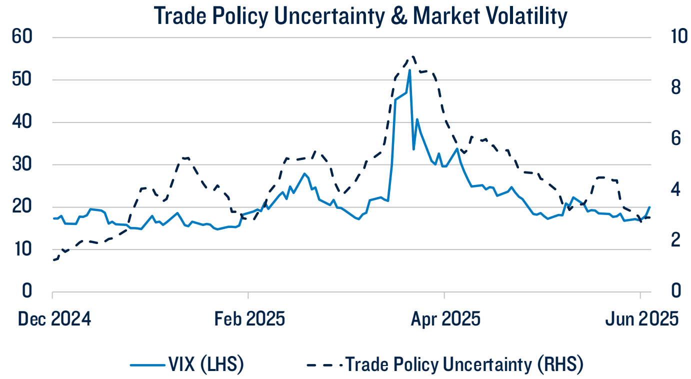


Bloomberg. Data as of Jun 13, 2025.

Recent changes in trade policy have been major drivers of market volatility over the past few months. Headlines and pronouncements from the administration have amplified market fluctuations, imparting far greater influence than macroeconomic and company-specific data. Implied volatility from equity options spiked in early April amid peak trade uncertainty, driving the VIX above 50 before receding in recent weeks (Figure 8).

While the macro environment remains modestly supportive of risk assets, the Trump administration's focus on growth-negative policies, such as tariffs and immigration, as growth-positive policies like taxes and deregulation take a back seat, is likely to keep risk assets volatile in the near term. As highlighted in the Economic Outlook, while a recession is not yet evident in US data, the risk of one over the next year has risen – particularly if the trade war escalates and higher tariffs are implemented.

Figure 8: Market Volatility Spikes Amid Trade Uncertainty



Source: Bloomberg. Data as of Jun 13, 2025.

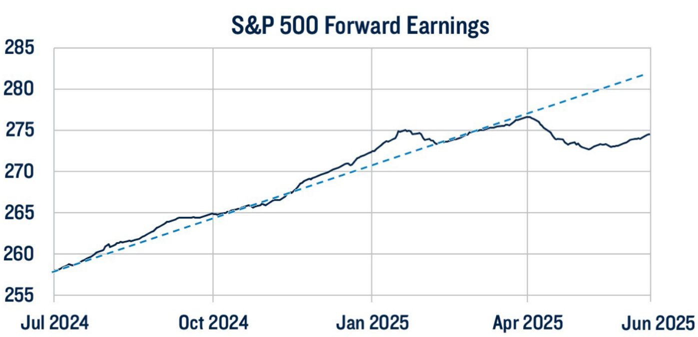
Trade policy uncertainty is expected to persist in the coming months as negotiations continue, though likely with less intensity than in the first half of the year. Markets appear to believe that the worst of the tariff-related disruptions has passed, and there is skepticism about the Trump administration's willingness to pursue these policies with rigid consistency if tensions escalate further. However, policy-related headlines are expected to remain a key driver of asset class performance in the near term. In particular, the Trump administration aims to pass a reconciliation bill that would extend the 2017 tax cuts while introducing some additional fiscal measures. Debt ceiling-discussions could also dominate headlines this summer. Meanwhile, US economic data present a mixed picture. Hard economic data, which had remained resilient even as soft data deteriorated, is showing signs of easing. Surveys are becoming more optimistic, raising the question of how this divergence might resolve over the summer. If hard data weakens, aligning more closely with earlier soft data projections, recessionary fears may resurface, as seen in prior quarters. Conversely, sustained strength in hard data could shift concerns back toward inflation risks.

The broader environment remains supportive for risk assets. Even as global growth expectations have been revised lower since the start of the year, improved clarity around tariffs appears to provide some stability for growth expectations. The extent to which the Fed and other central banks remain measured in their responses to tariffs will be critical in mitigating potential market disruptions. As mentioned earlier, insights from the New York Fed survey demonstrate that more than 50% of both manufacturing and services firms intend to pass a substantial portion of tariff costs onto their customers, suggesting that bottom-line impact may be less severe than feared.

Risk assets remain supported by still-solid company fundamentals. The Q1 earnings season highlighted continued strength in company earnings prior to the escalation of tariff uncertainty. While forward one-year earnings expectations for US companies peaked in February, they were quickly and intuitively revised lowered throughout Q2 as tariff uncertainty spiked. Approaching Q3, however, expectations appear to be stabilizing. PGIM Quant's corporate sentiment indicator mirrored this trend, peaking in March, easing over the past two months, and now showing signs of steadying.

US earnings exceptionalism continues despite the downward revisions to forward earnings. By contrast, other developed markets are expected to deliver only low- to mid-single-digit earnings growth in 2025, followed by a more muted rebound in 2026. Within the US, large-cap tech continues to dominate, with forward earnings expectations for the Mag-7 revised 2% higher despite questions about their earnings outlook in the approach to the Q1 earnings season. Meanwhile, forward earnings for the broader S&P 500 have risen by roughly 1%, while mid- and small-cap earnings expectations have reduced by 3%.

Figure 9: Forward Earnings Revisions Rise, Driven by Tech



Source: Bloomberg. Data as of Jun 13, 2025.

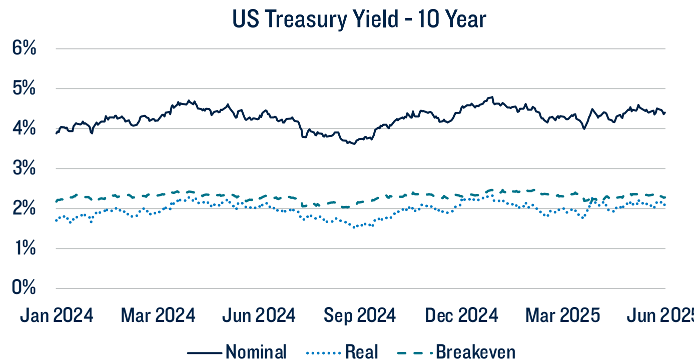
In fixed income, government securities globally are likely to remain pressured by persistent tariff policy uncertainty. The impact is expected to be most pronounced in the US, where concerns about debt sustainability are top of mind. These worries are further exacerbated by the reconciliation bill expected to pass this summer. While long-term inflation expectations remain contained, policy uncertainty has contributed to the rising term premium, with investors demanding more compensation to hold long-maturity US debt, to offset higher risks.

Outside the US, government yields are also under pressure. Longer-term Japanese Government Bond (JGB) yields are facing reduced demand from traditional buyers such as life insurance companies, prompting the BoJ to revisit its issuance plans. Meanwhile, in the Eurozone, government yields face prospects of stepped-up fiscal spending, particularly for defense.

Overall, we expect bond yields to continue to be range-bound, buffeted by opposing forces: tariff and inflation concerns are likely to push yields higher, while fears of an economic slowdown or recession would exert downward pressure.

Credit markets remain modestly attractive, supported by an economy that's expected to maintain a moderate pace and by attractive nominal yields.

Figure 10: Yields Likely to Stay Range-Bound

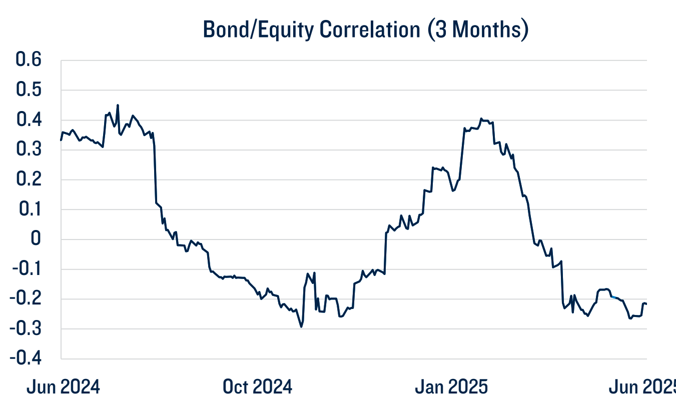


Source: Bloomberg. Data as of Jun 13, 2025.

Commodities stand out as a relative bright spot amid the ongoing uncertainty, driven largely by a rising geopolitical risk premium in oil markets as of mid-June. As noted in our past outlooks, commodities and real assets have tended to perform well during periods of elevated inflation. Current conditions, including the prospect of higher tariffs, are supportive of strengthening commodity prices. However, while tariffs may boost prices in the short term, there is risk of second-round effects dampening demand. Gold continues to benefit from ongoing central bank purchases, inflation worries and its role as a safe-haven asset.

While the underlying macroeconomic environment remains broadly supportive of risk assets, persistent uncertainty arising from ongoing tariff negotiations and fiscal policy measures is likely to keep volatility elevated across major asset classes. This calls for maintaining broadly diversified portfolios. Stock-bond correlation turned sharply positive earlier in the year on the back of broader concerns about dollar-denominated assets, but have now returned to negative (Figure 11). If markets refocus on fundamentals rather than headline-driven moves, stock-bond correlations are likely to remain negative, providing much needed portfolio ballast in the face of heightened volatility.

Figure 11: Stock-Bond Correlations Return to Negative Territory



Source: Bloomberg. Data as of Jun 13, 2025.

Important Information

This material is intended for Professional Investors only. All investments involve risk, including the possible loss of capital. Past performance is not a guarantee or a reliable indicator of future results.

PGIM Quantitative Solutions LLC (PGIM Quantitative Solutions or PGIM Quant) is an SEC-registered investment adviser and a wholly-owned subsidiary of PGIM, Inc. (PGIM) the principal asset management business of Prudential Financial, Inc. (PFI) of the United States of America. Registration with the SEC does not imply a certain level of skill or training. PFI of the United States is not affiliated in any manner with Prudential plc, which is headquartered in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom.

The comments, opinions and estimates contained herein are based on and/or derived from publicly available information from sources that PGIM Quantitative Solutions believes to be reliable. We do not guarantee the accuracy of such sources of information and have no obligation to provide updates or changes to these materials. This material is for informational purposes and sets forth our views as of the date of this presentation. The underlying assumptions and our views are subject to change.

These materials are neither intended as investment advice nor an offer or solicitation with respect to the purchase or sale of any security or financial instrument. These materials are not intended to be an offer with respect to the provision of investment management services. The opinions expressed herein do not take into account individual client circumstances, objectives, or needs and are therefore not intended to serve as investment recommendations. No determination has been made regarding the suitability of particular strategies to particular clients or prospects. The financial indices referenced herein is provided for informational purposes only. You cannot invest directly in an index. The statistical data regarding such indices has been obtained from sources believed to be reliable but has not been independently verified.

Certain information contained herein may constitute "forward-looking statements," (including observations about markets and industry and regulatory trends as of the original date of this document). Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making any decisions. No representation or warranty is made as to future performance or such forward-looking statements.

In the **United Kingdom**, information is issued by PGIM Limited with registered office: Grand Buildings, 1-3 Strand, Trafalgar Square, London, WC2N 5HR. PGIM Limited is authorised and regulated by the Financial Conduct Authority ("FCA") of the United Kingdom (Firm Reference Number 193418). In the **European Economic Area ("EEA"),** information is issued by PGIM Netherlands B.V. with registered office: Eduard van Beinumstraat 6 1077CZ, Amsterdam, The Netherlands. PGIM Netherlands B.V. is authorised by the Autoriteit Financiële Markten ("AFM") in the Netherlands (Registration number 15003620) and operating on the basis of a European passport. In certain EEA countries, information is, where permitted, presented by PGIM Limited in reliance of provisions, exemptions or licenses available to PGIM Limited under temporary permission arrangements following the exit of the United Kingdom from the European Union. These materials are issued by PGIM Limited and/or PGIM Netherlands B.V. to persons who are professional clients as defined under the rules of the FCA and/or to persons who are professional clients as defined in the relevant local implementation of Directive 2014/65/EU (MiFID II). PGIM Quantitative Solutions LLC, PGIM Limited and/or PGIM Netherlands B.V. are indirect, wholly-owned subsidiaries of PGIM, Inc. ("PGIM").

In **Australia**, this document is provided to prospective investors and, by receiving it, each prospective investor is deemed to represent and warrant that it is a "Wholesale Client" (as those terms are defined in Australian Corporations Act 2001 (Cth) (Act)). PGIM Quantitative Solutions LLC is exempt from the requirement to hold an Australian financial services license under the Act (as a result of the operation of Class Order Exemption 03/1100) in respect of the financial services it provides to Wholesale Clients in Australia and is regulated by the SEC which differ from Australian laws.

In **Switzerland**, information issued by PGIM Limited, through its Representative Office in Zurich with registered office: Kappelergasse 14, CH-8001 Zurich, Switzerland. PGIM Limited, Representative Office in Zurich is authorised and regulated by the Swiss Financial Market Supervisory Authority FINMA and these materials are issued to persons who are professional or institutional clients within the meaning of Art.4 para 3 and 4 FinSA in Switzerland.

In **Canada**, PGIM Quantitative Solutions LLC relies upon the "International Advisor Exemption" pursuant to National Instrument 31-103 in certain provinces of Canada.

In **Singapore**, information is issued by PGIM (Singapore) Pte. Ltd. ("PGIM Singapore"), a regulated entity with the Monetary Authority of Singapore under a Capital Markets Services License to conduct fund management and an exempt financial adviser. This material is issued by PGIM Singapore for the general information of "institutional investors" pursuant to Section 304 of the Securities and Futures Act 2001 of Singapore (the "SFA") and "accredited investors" and other relevant persons in accordance with the conditions specified in Section 305 of the SFA.

In **Hong Kong**, information is provided by PGIM (Hong Kong) Limited, a regulated entity with the Securities & Futures Commission in Hong Kong to professional investors as defined in Section 1 of Part 1 of Schedule 1 of the Securities and Futures Ordinance (Cap.571).

In **Japan**, the investment management capabilities and services described in the attached materials are offered by PGIM Japan Co., Ltd (PGIMJ), a Japanese registered investment adviser (Director-General of the Kanto Local Finance Bureau (FIBO) No. 392). Retention of PGIMJ for the actual provision of such investment advisory services may only be affected pursuant to the terms of an investment management contract executed directly between PGIMJ and the party desiring such services, it is anticipated that PGIMJ would delegate certain investment management services to its US-registered investment advisory affiliate.

In **Korea**, PGIM Quantitative Solutions LLC holds cross-border discretionary investment management and investment advisory licenses under the Korea Financial Investment Services and Capital Markets Act ("FSCMA"), and is registered in such capacities with the Financial Services Commission of Korea. These materials are intended solely for Qualified Professional Investors as defined under the FSCMA and should not be given or shown to any other persons.

These materials are not intended for distribution to, or use by, any person in any jurisdiction where such distribution would be contrary to local or international law or regulation. The views and opinions herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients or prospects. No determination has been made regarding the appropriateness of any securities, financial instruments or strategies for particular clients or prospects. For any securities or financial instruments mentioned herein, the recipient(s) of this report must make its own independent decisions.

Foreign investments may be volatile and involve additional expenses and special risks, including currency fluctuations, foreign taxes and political and economic uncertainties. Emerging and developing market investments may be especially volatile. Investments in securities of growth companies may be especially volatile. Due to the recent global economic crisis that caused financial difficulties for many European Union countries, Eurozone investments may be subject to volatility and liquidity issues. Value investing involves the risk that undervalued securities may not appreciate as anticipated. Small and mid-sized company stock is typically more volatile than that of larger, more established businesses, as these stocks tend to be more sensitive to changes in earnings expectations and tend to have lower trading volumes than large-cap securities, creating potential for more erratic price movements. It may take a substantial period of time to realize a gain on an investment in a small or mid-sized company, if any gain is realized at all. Diversification does not guarantee profit or protect against loss. Emerging markets are countries that are beginning to emerge with increased consumer potential driven by rapid industrial expansion and economic growth. Investing in emerging markets is very risky due to the additional political, economic and currency risks associated with these underdeveloped geographic areas. Fixed-income investments are subject to interest rate risk, and their value will decline as interest rates rise. Unlike other investment vehicles, U.S. government securities and U.S. Treasury bills are backed by the full faith and credit of the U.S. government, are less volatile than equity investments, and provide a guaranteed return of principal at maturity. Treasury Inflation-Protected Securities (TIPS) are inflation-index bonds that may experience greater losses than other fixed income securities with similar durations and are more likely to cause fluctuations in a Portfolio's income distribution. Investing in real estate poses risks related to an individual property, credit risk and interest rate fluctuations. High yield bonds, commonly known as junk bonds, are subject to a high level of credit and market risks. Investing involves risks. Some investments are riskier than others. The investment return and principal value will fluctuate and when sold may be worth more or less than the original cost.

PGIM Quantitative Solutions affiliates may develop and publish research that is independent of, and different than, the views and opinions contained herein. PGIM Quantitative Solutions personnel other than the author(s), such as sales, marketing and trading personnel, may provide oral or written market commentary or ideas to PGIM Quantitative Solutions' clients or prospects or proprietary investment ideas that differ from the views expressed herein. Additional information regarding actual and potential conflicts of interest is available in PGIM Quantitative Solutions' Form ADV Part 2A. Asset allocation is a method of diversification that positions assets among major investment categories. Asset allocation can be used to manage investment risk and potentially enhance returns. However, use of asset allocation does not guarantee a profit or protect against a loss.

AUTHORS

Manoj Rengarajan, CFA, Portfolio Manager
John Hall, CFA, Portfolio Manager
Jeff Young, Head of Investment Strategy, Multi Asset
Sameer Ahmed, Portfolio Manager

CONTRIBUTORS

Marco Aiolfi, PhD, Head of Multi Asset and Portfolio Manager
Lorne Johnson, PhD, Head of Multi-Asset Portfolio Design and Portfolio Manager
PGIM Quant Multi-Asset Team

FOR MORE INFORMATION

To learn more about our capabilities, please visit www.pgimquantitativesolutions.com.

ABOUT PGIM Quantitative Solutions

PGIM Quantitative Solutions is a pioneer of quantitative investing. For 50 years, PGIM Quant has been helping investors around the world solve their unique needs by leveraging the power of technology, data, and advanced academic research. Since our founding in 1975, our time-tested process, based on academic, economic, and behavioral foundations, has been used to successfully navigate a wide variety of market environments.

Today, we manage systematic equity and multi-asset portfolios against a wide range of benchmarks. PGIM Quant's global client base includes corporate and public pension plans, endowments and foundations, sovereign wealth funds, multi-employer pension plans, and sub-advisory accounts for leading financial services companies. As of March 31, 2025, PGIM Quant managed approximately $104 billion in client assets.